
BLACK HAWK - GRUNDY MENTAL
HEALTH CENTER, INC.
WATERLOO, IOWA

INDEPENDENT AUDITORS' REPORT
FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 and 2013



**CARNEY,
ALEXANDER,
MAROLD & CO., L.L.P.**
Certified Public Accountants

BLACK HAWK - GRUNDY MENTAL HEALTH CENTER, INC.
WATERLOO, IOWA

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BLACK HAWK - GRUNDY MENTAL HEALTH CENTER, INC.
WATERLOO, IOWA

Board of Directors
June 30, 2014

Name	Title	Term Expires
Charles Bakker	Member	N/A
Ann Meyer	Member	1/1/2017
Deborah Berry	Member	1/1/2017
Lori Byers	Member	1/1/2015
Laura Folkerts	Chairperson	1/1/2016
Mary Ellen Warren	Member	1/1/2016
Frank Magsamen	Member	N/A
Dwight Watson	Member	1/1/2017
Kyle Henderson	Member	1/1/2015
Beverly Smith	Member	1/1/2016
Lynn Smith	Member	1/1/2016
Bob Brown	Vice-Chairperson	1/1/2017
David Buck	Treasurer	1/1/2017
Linda Kemp	Member	1/1/2016
Rachel Dray	Member	1/1/2016
Tom Eachus	Executive Director	Indefinite

Independent Auditors' Report

Board of Directors
Black Hawk - Grundy Mental Health Center, Inc.
Waterloo, Iowa

Report on Financial Statements

We have audited the accompanying Statements of Financial Position of Black Hawk - Grundy Mental Health Center, Inc. (a nonprofit organization) as of and for the years ended June 30, 2014 and 2013, the related Statements of Activities, Functional Expenses, and Cash Flows for the years then ended and the Notes to the Financial Statements.

Managements Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Center's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Black Hawk - Grundy Mental Health Center, Inc., at June 30, 2014 and 2013, and the changes in its net assets and cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 22, 2014 on our consideration of Black Hawk - Grundy Mental Health Center, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in considering Black Hawk - Grundy Mental Health Center, Inc.'s internal control over financial reporting and compliance.

Ceney, Alexander, Marshall & Co., L.L.P.

October 22, 2014

BLACK HAWK - GRUNDY MENTAL HEALTH CENTER, INC.
WATERLOO, IOWA

Exhibit A

Statements of Financial Position
As of June 30, 2014 and 2013

	2014	2013
- ASSETS -		
Cash and cash equivalents	\$ 277,019	\$ 155,473
Investments	202,343	176,046
Accounts receivable, patient services, less allowance for uncollectible accounts of \$70,086 for 2014 and \$109,469 for 2013	205,432	448,445
Accounts receivable-other	623,561	391,947
Grant income receivable	33,742	77,738
Deposits	858	830
Prepaid expense	45,887	46,176
Prepaid bond costs	5,051	7,577
Compensation deferral fund	560,158	542,167
	<u>1,954,051</u>	<u>1,846,399</u>
Property and Equipment:		
Building	2,746,652	2,746,652
Land	67,799	67,799
Land improvements	58,498	58,498
Equipment	952,376	938,156
	<u>3,825,325</u>	<u>3,811,105</u>
Less accumulated depreciation	1,327,398	1,165,142
	<u>2,497,927</u>	<u>2,645,963</u>
 Total Assets	 <u>\$ 4,451,978</u>	 <u>\$ 4,492,362</u>
- LIABILITIES -		
Accounts payable	\$ 41,112	\$ 17,229
Payroll withholdings payable	10,817	11,545
Accrued payroll	13,992	363
Accrued compensated absences	238,716	246,868
Accrued interest payable	707	750
Deferred compensation	727,037	711,118
Bonds payable	578,862	613,302
	<u>1,611,243</u>	<u>1,601,175</u>
 Total Liabilities	 <u>1,611,243</u>	 <u>1,601,175</u>
- NET ASSETS -		
Unrestricted	2,677,609	2,727,889
Temporarily restricted	163,126	163,298
	<u>2,840,735</u>	<u>2,891,187</u>
 Total Net Assets	 <u>2,840,735</u>	 <u>2,891,187</u>
 Total Liabilities and Net Assets	 <u>\$ 4,451,978</u>	 <u>\$ 4,492,362</u>

The accompanying notes are an integral part of these statements.

BLACK HAWK - GRUNDY MENTAL HEALTH CENTER, INC.
WATERLOO, IOWA

Statements of Activities
For the Years Ended June 30, 2014 and 2013

	2014		
	Unrestricted	Temporarily Restricted	Total
Public Support and Revenue:			
Public Support:			
County Social Services	\$ 1,305,849	\$ -	\$ 1,305,849
Other county and state payments	17,916	-	17,916
Federal, State and other program grants	479,542	3,700	483,242
Gifts and bequests	1,324	-	1,324
	1,804,631	3,700	1,808,331
Revenues:			
Patient Service Revenue	2,451,272	-	2,451,272
Interest and dividends on investments	10,119	-	10,119
Realized gain on sale of investments	12,686	-	12,686
Net unrealized gain on investments	5,706	-	5,706
Other income	714	-	714
	2,480,497	-	2,480,497
Net Assets Released From Restrictions:			
Satisfaction of program restrictions	3,872	(3,872)	-
	4,289,000	(172)	4,288,828
Total Public Support and Revenues			
Expenses:			
Program services	3,526,583	-	3,526,583
Support services	810,776	-	810,776
Fundraising	1,921	-	1,921
	4,339,280	-	4,339,280
Total Expenses			
Change in Net Assets	(50,280)	(172)	(50,452)
Net Assets, Beginning of Year	2,727,889	163,298	2,891,187
Net Assets, End of Year	\$ 2,677,609	\$ 163,126	\$ 2,840,735

The accompanying notes are an integral part of these statements.

2013		
Unrestricted	Temporarily Restricted	Total
\$ 1,725,135	\$ -	\$ 1,725,135
246,873	-	246,873
527,386	38,248	565,634
2,774	-	2,774
<u>2,502,168</u>	<u>38,248</u>	<u>2,540,416</u>
1,836,449	-	1,836,449
4,665	-	4,665
1,906	-	1,906
11,731	-	11,731
4,204	-	4,204
<u>1,858,955</u>	<u>-</u>	<u>1,858,955</u>
10,070	(10,070)	-
<u>4,371,193</u>	<u>28,178</u>	<u>4,399,371</u>
3,696,378	-	3,696,378
954,321	-	954,321
1,953	-	1,953
<u>4,652,652</u>	<u>-</u>	<u>4,652,652</u>
(281,459)	28,178	(253,281)
<u>3,009,348</u>	<u>135,120</u>	<u>3,144,468</u>
<u>\$ 2,727,889</u>	<u>\$ 163,298</u>	<u>\$ 2,891,187</u>

BLACK HAWK - GRUNDY MENTAL HEALTH CENTER, INC.
WATERLOO, IOWA

Statements of Functional Expenses
For the Years Ended June 30, 2014 and 2013

	2014			
	Program Services	Support Services, Management and General	Fundraising	Total
Salaries	\$ 2,282,378	\$ 588,073	\$ 1,653	\$ 2,872,104
Payroll taxes	162,407	42,140	113	204,660
Annuity	89,546	3,377	83	93,006
Health insurance	84,168	61,956	58	146,182
Deferred compensation	-	(2,072)	-	(2,072)
Life insurance	9,963	3,232	9	13,204
Continuing education	11,029	1,322	5	12,356
Other personnel	18,584	6,820	-	25,404
Total Salaries and Related Expenses	2,658,075	704,848	1,921	3,364,844
Insurance	79,291	5,597	-	84,888
Medical consultants	183,863	-	-	183,863
Contract labor	34,814	23,357	-	58,171
Professional supplies	471	165	-	636
Medication	1,586	-	-	1,586
Dues	3,873	997	-	4,870
Program supplies	24,091	-	-	24,091
Office supplies	47,901	10,002	-	57,903
Equipment maintenance	122,128	1,158	-	123,286
Telephone	26,312	4,360	-	30,672
Equipment lease and rental	26,477	6,716	-	33,193
Building maintenance	28,255	4,385	-	32,640
Utilities	15,005	2,858	-	17,863
Lease of land and storage	23,674	-	-	23,674
Publicity and promotion	4,732	-	-	4,732
Travel expense	39,194	3,243	-	42,437
Attorney fees	11,135	2,009	-	13,144
Professional fees	-	-	-	-
Accounting fees	5,979	1,541	-	7,520
Bad debts	16,681	4,298	-	20,979
Interest expense	21,228	5,471	-	26,699
Investment fees	11,300	2,912	-	14,212
Other	2,101	494	-	2,595
	730,091	79,563	-	809,654
Total Expenses Before Depreciation and Amortization	3,388,166	784,411	1,921	4,174,498
Depreciation and amortization	138,417	26,365	-	164,782
Total Expenses	\$ 3,526,583	\$ 810,776	\$ 1,921	\$ 4,339,280

The accompanying notes are an integral part of these statements.

2013			
Program Services	Support Services, Management and General	Fundraising	Total
\$ 2,562,803	\$ 603,011	\$ 1,654	\$ 3,167,468
174,589	44,105	116	218,810
103,851	22,650	83	126,584
110,558	53,184	64	163,806
-	21,735	-	21,735
10,588	2,682	9	13,279
24,181	6,043	27	30,251
20,738	2,976	-	23,714
<u>3,007,308</u>	<u>756,386</u>	<u>1,953</u>	<u>3,765,647</u>
78,949	8,743	-	87,692
77,700	-	-	77,700
62,390	2,958	-	65,348
1,635	-	-	1,635
6,381	-	-	6,381
4,305	1,013	-	5,318
19,351	-	-	19,351
41,112	9,210	-	50,322
101,353	23,068	-	124,421
25,827	4,284	-	30,111
26,949	6,244	-	33,193
15,037	3,397	-	18,434
12,352	2,907	-	15,259
25,758	-	-	25,758
3,737	-	-	3,737
46,812	2,510	-	49,322
-	9,784	-	9,784
-	700	-	700
-	7,650	-	7,650
-	41,014	-	41,014
-	29,119	-	29,119
-	11,226	-	11,226
-	1,298	-	1,298
<u>549,648</u>	<u>165,125</u>	<u>-</u>	<u>714,773</u>
3,556,956	921,511	1,953	4,480,420
139,422	32,810	-	172,232
<u>\$ 3,696,378</u>	<u>\$ 954,321</u>	<u>\$ 1,953</u>	<u>\$ 4,652,652</u>

BLACK HAWK - GRUNDY MENTAL HEALTH CENTER, INC.
WATERLOO, IOWA

Exhibit D

Statements of Cash Flows
For the Years Ended June 30, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities:		
Change in net assets	\$ (50,452)	\$ (253,281)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation of buildings and equipment	162,256	169,260
Amortization of prepaid bond costs	2,526	2,972
Net unrealized gain on investments	(5,706)	(11,731)
Realized gain on sale of investments and property	(12,686)	(1,906)
Non-cash contributions received	-	(400)
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	11,371	100,132
Grant income receivable	43,996	(30,666)
Prepaid expenses	289	(371)
Increase (decrease) in:		
Accounts payable	23,883	(8,967)
Accrued withholdings	4,706	4,111
Compensation deferral fund	(2,072)	21,734
Net Cash Provided (Used) By Operating Activities	<u>178,111</u>	<u>(9,113)</u>
Cash Flows from Investing Activities:		
Purchase of investments	(45,319)	(13,064)
Proceeds from sale of investments	37,414	10,502
Purchase of fixed assets	(14,220)	(14,288)
Net Cash Used By Investing Activities	<u>(22,125)</u>	<u>(16,850)</u>
Cash Flows from Financing Activities:		
Proceeds on short term borrowings	50,000	185,000
Payments on short term borrowings	(50,000)	(260,000)
Payments on bonds payable	(34,440)	(32,940)
Net Cash Used By Financing Activities	<u>(34,440)</u>	<u>(107,940)</u>
Net Change in Cash and Cash Equivalents	121,546	(133,903)
Cash and Cash Equivalents at Beginning of Year	155,473	289,376
Cash and Cash Equivalents at End of Year	<u>\$ 277,019</u>	<u>\$ 155,473</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 26,741	\$ 29,359
Non-Cash Investing and Financing Activities:		
Contributions received - computer software	\$ -	\$ 590
Contributions received - donated office equipment	-	400

The accompanying notes are an integral part of these statements.

BLACK HAWK - GRUNDY MENTAL HEALTH CENTER, INC.
WATERLOO, IOWA

Notes to Financial Statements

(1) Summary of Significant Accounting Policies

A. Reporting Entity

The Center is a non profit corporation established to provide a comprehensive community mental health program for the diagnosis and treatment of psychiatric and psychological disorders and to promote the prevention of mental illness. Services are provided primarily to residents of Black Hawk and Grundy Counties.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America for not for profit organizations. Revenues are recognized when earned and expenses are recorded when the liability is incurred, if measurable.

Purchases of fixed assets providing future benefits are capitalized and depreciated over their estimated useful lives.

C. Basis of Presentation

The Center has adopted the Accounting Standards Codification (ASC) reporting requirements for not for profit organizations. Under those standards, the Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by the standards, the Center does not use fund accounting.

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Center and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed restrictions.

Temporarily restricted net assets - Net assets whose use by the Center has been limited by donor-imposed restrictions, such as specified dates and/or purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

BLACK HAWK - GRUNDY MENTAL HEALTH CENTER, INC.
WATERLOO, IOWA

Notes to Financial Statements

(1) Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Net Assets

The following accounting policies are followed in preparing the statement of financial positions:

Cash and Cash Equivalents - The Center considers savings accounts and all other highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Receivables - Receivables are shown at the amount expected to be collected after determining the allowance for doubtful accounts based on an aging of all the individual patient balances. Accounts are determined to be past due based on how recently payments have been received.

Property and Equipment - Property and equipment are stated at cost if purchased or fair market value at the date of the gift if donated. Depreciation is computed by the straight-line method over the estimated useful lives of 5 - 40 years. Any property and equipment purchased with a cost of \$1,000 or higher will be capitalized and depreciated.

Compensated Absences - Center employees accumulate a limited amount of earned but unused vacation and sick leave benefits payable to employees. Amounts representing an estimate of the cost of compensated absences are recorded as liabilities and have been computed based on rates of pay in effect at June 30, 2014 and 2013.

E. Net Patient Service Revenue

Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

F. Contributions

Contributions to the Center which are received from the public are considered available for unrestricted use, unless specifically restricted by the donor. No restricted contributions were received for the years ended June 30, 2014 and 2013. No amounts are reflected in these financial statements for donated services rendered for the Center since no objective basis is available to measure the value of such services.

G. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

BLACK HAWK - GRUNDY MENTAL HEALTH CENTER, INC.
WATERLOO, IOWA

Notes to Financial Statements

(1) Summary of Significant Accounting Policies (continued)

H. Income Taxes

The Center is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and a similar section of the Iowa income tax law, which provide tax exemption for corporations organized and operated exclusively for religious, charitable or educational purposes. Accordingly, no provision for income taxes is reflected in the financial statements.

The Center adopted accounting standards which require evaluation of the impact of uncertain tax positions taken or expected to be taken in a tax return. In some instances, the Center may be required to recognize a liability related to those tax positions. At June 30, 2014 and 2013, the Center had no uncertain tax positions requiring recognition in the financial statements. The Center is no longer subject to federal and state income tax examinations by tax authorities for years before June 30, 2011.

(2) Fair Value Measurements

The Center's investments are reported at fair value as required by professional standards. Those standards established a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy consists of three broad levels as follows:

Level 1 - Quoted prices in active markets for identical financial instruments that are accessible at the measurement date.

Level 2 - Quoted prices in active markets for similar financial instruments, quoted prices for identical or similar financial instruments in markets that are not active, and models and other valuation methodologies using inputs other than quoted prices that are observable.

Level 3 - Models and other valuation methodologies using significant inputs that are unobservable for financial instruments.

	Fair Value	Fair Value Measurements Using Quoted Markets for Identical Assets (Level 1)
June 30, 2014		
Cash and Equivalents	\$ 1,549	\$ 1,549
Mutual Funds	200,794	200,794
	\$ 202,343	\$ 202,343
June 30, 2013		
Cash and Equivalents	\$ 2,276	\$ 2,276
Mutual Funds	173,770	173,770
	\$ 176,046	\$ 176,046

BLACK HAWK - GRUNDY MENTAL HEALTH CENTER, INC.
WATERLOO, IOWA

Notes to Financial Statements

(2) Fair Value Measurements (continued)

The fair value of mutual funds is based on quoted net asset value of the shares held by the Center at year-end. The fair values of common stock, corporate bonds and U.S. Government securities, if any, are based on quoted market prices.

(3) Investments

Unrestricted - The investments at June 30, 2014 and 2013 consist of mutual funds and high grade commercial notes carried at their published fair market value of \$202,343 and \$176,046, respectively. Realized and unrealized gains and losses on investments are reflected on the statements of activities. Values have not been adjusted for market fluctuations subsequent to June 30. Accounting principles generally accepted in the United States of America require adjustment of year end values only when the value has been permanently impaired. Management does not feel market fluctuations have caused permanent impairment to its investment portfolio. Following is a schedule showing the change in fair value for investments for 2014 and 2013.

	2014			2013		
	Cost	Market Value (Depreciation)	Unrealized Appreciation	Cost	Market Value (Depreciation)	Unrealized Appreciation
Unrestricted:						
Mutual Funds:						
Stock Funds	\$ 59,458	\$ 95,651	\$ 36,193	\$ 76,073	\$ 113,270	\$ 37,197
Bond Funds	103,993	105,143	1,150	60,974	60,500	(474)
Money Market Funds	1,549	1,549	-	2,276	2,276	-
	<u>\$ 165,000</u>	<u>\$ 202,343</u>	<u>\$ 37,343</u>	<u>\$ 139,323</u>	<u>\$ 176,046</u>	<u>\$ 36,723</u>

(4) Property and Equipment

A summary of changes in property and equipment is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Building	\$ 2,746,652	\$ -	\$ -	\$ 2,746,652
Land	67,799	-	-	67,799
Land improvements	58,498	-	-	58,498
Equipment	938,156	14,220	-	952,376
Total	<u>3,811,105</u>	<u>14,220</u>	<u>-</u>	<u>3,825,325</u>
Less: Accumulated Depreciation	<u>1,165,142</u>	<u>162,256</u>	<u>-</u>	<u>1,327,398</u>
Net Book Value	<u>\$ 2,645,963</u>	<u>\$ (148,036)</u>	<u>\$ -</u>	<u>\$ 2,497,927</u>

Depreciation expense for 2014 and 2013, respectively, was \$162,256 and \$169,260.

BLACK HAWK - GRUNDY MENTAL HEALTH CENTER, INC.
WATERLOO, IOWA

Notes to Financial Statements

(5) Leases

The Center rents office space in the Grundy County Memorial Hospital and Waverly Health Center. Both leases are for a term of one year. Rent is based per time utilized, either full or half day. The leases have and will automatically continue thereafter for each additional one year period at the same terms and conditions, unless terminated by either party upon sixty days written notice.

Additional office space was rented in the Black's Building in Waterloo, Iowa for \$1,294 per month. The lease began February 1, 2011 and expired January 31, 2012. The lease did not have any automatic renewal provisions, and as of expiration was not renewed. The Center continues to rent the office space on a month to month basis.

The Center made payments during the year under two noncancelable operating leases for office equipment. The first is a postage meter with monthly payments of \$137 ending June 30, 2015. The second is a phone system with monthly payments of \$2,594 ending September 15, 2015 with an option to renew for an additional three year period.

Rent expense paid on all leases during the year ended June 30, 2014 and 2013, was \$58,867 and \$58,951, respectively. Included in rent expense are contingent rentals based on measured usage of some of the leased equipment.

The future minimum lease payments for the next five years required under the leases mentioned above with terms over one year are as follows:

Years ending June 30:	
2015	\$ 32,776
2016	7,783
2017	-
2018	-
2019	-

(6) Compensation Deferral

The Center had entered into agreements with its employees to remit portions of their earned compensation to an insurance carrier for the purpose of deferring personal income taxes until payment by the carrier to the employees. The fund must be in the name of the Center to prevent current taxation to the employees. Contributions to the fund ceased during April, 1994. In an effort to greatly reduce or eliminate the need for future contributions to the plan, the Center has invested a portion of the plan assets in a combination of single premium annuity and life insurance policies. The annuity proceeds were used to fund the insurance premiums through November, 2000. No additional premiums were contributed by the Center during the years ended June 30, 2014 and 2013.

BLACK HAWK - GRUNDY MENTAL HEALTH CENTER, INC.
WATERLOO, IOWA

Notes to Financial Statements

(6) Compensation Deferral (continued)

The Center previously entered into agreements with certain employees to pay compensation upon retirement. The monthly deferred compensation payments will be made for ten years. Upon retirement, the employees can begin drawing the payments at age 60. The employee earns increased payments based on the number of years of service and the age upon retirement or separation of service. The liability recognized is based on the present value of the expected future payments.

The cash value of the deferred compensation fund was \$560,158 and \$542,167 at June 30, 2014 and 2013, respectively. Payments made to employees totaled \$14,808 for the years ended June 30, 2014 and 2013. The corresponding present value of the deferred compensation liability was \$727,037 for 2014 and \$711,118 for 2013, of which \$14,808 and \$14,408, respectively, is considered current.

(7) Annuities

The Center contributes 5% of each participant's base salary into a 403(b) Thrift Plan. A participant is defined as a full-time employee or an employee who works greater than one thousand hours in the preceding calendar year and has reached age twenty-one. The employee may elect also to contribute to the annuity plan within the limits prescribed by law. Upon termination of employment, the Center's contributions are subject to the vesting schedule in the plan document based on the number of years of service. Employer contributions under the plan for the years ended June 30, 2014 and 2013 totaled \$93,006 and \$126,584, respectively.

(8) Debt

Bonds Payable

On July 1, 2011 the Center issued a single tax-exempt bond for \$670,000. The proceeds were used to refund a prior outstanding bond, repay a construction line-of-credit, and fund the remainder of the facility addition. The bond is secured by a first mortgage lien on the facility and a security interest in certain personal property, machinery and equipment. The bond requires the Center to meet certain covenants on an annual basis. The loan carries a twenty year term, requires monthly payments of \$5,092, with an interest rate of 4.40%. At June 30, 2014 and 2013, bonds payable were \$578,862 and \$613,302, respectively.

Line-of-Credit

The Center has a line-of-credit from US Bank N.A. for cash management purposes. Borrowings are not to exceed \$100,000. The loan is secured by a security interest in certain personal property, inventory, and equipment, dated March 2, 2012. Interest payments are due monthly at a rate of .25% above US Bank's prime lending rate but, not less than 4.00%. The loan was due January 30, 2014, but was renewed for an additional year with a new maturity date of January 30, 2015. At June 30, 2014 and 2013 the balance was \$0.

BLACK HAWK - GRUNDY MENTAL HEALTH CENTER, INC.
WATERLOO, IOWA

Notes to Financial Statements

(8) Debt (continued)

Total interest expense for the year ended June 30, 2014 and 2013 was \$26,699 and \$29,119, respectively.

As of June 30, 2014, maturities of the bond for the next five years are as follows:

Years ending June 30:	
2015	\$ 37,118
2016	38,028
2017	39,735
2018	41,520
2019	43,384

(9) Intangible Assets

Intangible assets are recorded at cost and are amortized using the straight-line method. At June 30, 2014, the Center's intangible assets consist of bond costs, amortized over a five year period. Amortization expense for the years ending June 30, 2014 and 2013, was \$2,526 and \$2,972, respectively.

Future estimated amortization expense is as follows:

Years ending June 30:	
2015	\$ 2,526
2016	2,525
2017	-
2018	-

(10) Financial Instruments and Credit Risk

The Center grants credit in the form of accounts receivable for services rendered. The accounts receivable are collectible from individuals receiving service and in many cases third party payors such as insurance carriers. The Center received 30% and 39% of its total public support and revenue from County Social Services for the years ending June 30, 2014 and 2013, respectively.

The Center's financial instruments consist of cash and short-term receivables and payables. The carrying value for all such instruments, considering the terms, approximated fair value at June 30, 2014 and 2013. At various dates during the year, the Center had balances in excess of federally insured limits. Management believes the Center is not exposed to any significant credit risk related to these balances.

(11) Related Party Transactions

The Center is related to Friends of the Black Hawk - Grundy Mental Health Center, Inc. through common Board members. This organization was formed to promote the Center and solicit contributions from the public for the benefit of the Center. There were no material transactions between the two organizations during the years ended June 30, 2014 and 2013.

BLACK HAWK - GRUNDY MENTAL HEALTH CENTER, INC.
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Notes to Financial Statements

(12) Risk Management

Black Hawk - Grundy Mental Health Center, Inc. is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Center assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims for these risks have not exceeded commercial insurance coverage for the past three years.

(13) Reclassifications of Net Assets

Net assets were placed under temporary restrictions as follows:

	2014	2013
Funds placed under temporary restriction as required by grant stipulations	\$ 3,700	\$ 38,248
Funds released from temporary restriction due to satisfaction of program restrictions	<u>3,872</u>	<u>10,070</u>
Net assets placed under (released from) restriction	<u>\$ (172)</u>	<u>\$ 28,178</u>

Temporarily restricted net assets at June 30, 2014 and 2013 consist of cash and cash equivalents and investments of \$163,126 and \$163,298, respectively.

(14) Contingencies

The Center is a party to three legal actions arising in the ordinary course of business. In the opinion of the Center's management and its legal counsel, the ultimate outcome of the litigation, if any, will not have a material adverse effect on the Center's financial position.

(15) Subsequent Events

Subsequent to year end the Center executed a nonbinding letter of intent with Allen Health System, Inc. to become an affiliate of Allen Health Systems, Inc.. The letter of intent was signed on July 22, 2014. It is the intent of both parties to have the terms of a definitive agreement completed within two to four months after execution and the agreement closed shortly after necessary government approval has occurred.

Management has evaluated subsequent events through October 22, 2014, the date on which the financial statements were available to be issued.

Independent Auditors' Report on Internal Control over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with Government Auditing Standards

To the Board of Directors
Black Hawk - Grundy Mental Health Center, Inc.
Waterloo, Iowa

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of Black Hawk - Grundy Mental Health Center, Inc., Waterloo, Iowa, (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 22, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Black Hawk - Grundy Mental Health Center, Inc's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Black Hawk - Grundy Mental Health Center, Inc's internal control. Accordingly, we do not express an opinion on the effectiveness of Black Hawk - Grundy Mental Health Center, Inc's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Black Hawk - Grundy Mental Health Center, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which would have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Black Hawk - Grundy Mental Health Center, Inc. during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Carmy Alexander, Harold C., L.L.P.

October 22, 2014

BLACK HAWK - GRUNDY MENTAL HEALTH CENTER, INC.
WATERLOO, IOWA

Schedule of Findings

Year Ended June 30, 2014

Findings Related to the Financial Statements:

No material weaknesses in internal control over financial reporting were noted.

Other Findings Related to Statutory Requirements and Other Matters:

No other findings related to statutory requirements and other matters were noted.